

ILLINOIS GAMING BOARD MEETING MINUTES
April 12, 1990

Room A-1
William G. Stratton Building
Springfield, Illinois

Present: William J. Kunkle, Chairman; Board Members: Raymond Niepert, J. Thomas Johnson, William Jack Chamblin, and Robert Gibson

Also Present: Senator Denny Jacobs; Senator Kenneth Hall; Representative Joel Brunsvold; Bob Steere, Temporary Counsel and Secretary of the Board; Roger Sweet, Director, Illinois Department of Revenue ("IDOR"); Kevin Johnson, IDOR; Ellen Lewis, IDOR; prospective licensees; media and the general public

The meeting was called to order at 9:40 a.m. by Chairman Kunkle, with all Board members present. The Chairman noted the presence of Senators Denny Jacobs and Kenneth Hall; Representative Joel Brunsvold; and Director Roger Sweet and Kevin Johnson of the IDOR.

The first order of business was the approval of the minutes from the previous meeting. The minutes were unanimously approved as presented.

Chairman Kunkle then called for the presentation of comments by potential licensees concerning the Riverboat Gambling Act ("Act") and the Board's rules and regulations. All persons who had communicated with the IDOR or the Board expressing interest in licenses had been invited to attend the meeting to offer their comments. Chairman Kunkle made clear for the record that the meeting and the Board's request for comments by potential licensees was not part of the application process for granting ownership licenses.

Chairman Kunkle read the list of names attached as Exhibit A of those persons who had informed the Board of their desire to offer comments, and requested that any other persons who wished to offer comments inform the Board's staff during the first break.

The first person called by Chairman Kunkle was Ralph W. Heninger, an attorney representing Mr. J. Jumer. With Mr. Heninger were Mayors Mark Schwiebert of Rock Island, Allen McCaulley of Moline and Chalmer "Chuck" Emmendorfer of East Moline. A joint written presentation from the Quad Cities was offered to the Board. Mayor Schwiebert offered the following comments:

* A major concern is the need for an expedited licensing process. The Act was prompted by competition from Iowa, and time is of the essence. Since gaming boats can take from 10 to 12 months to construct, the Quad Cities could be out of the water for the 1991 gaming season if licenses are not issued in the near future.

* Rock Island and Jumer's Boat Works have a project ready to be licensed. The boat design is well under way, but they do not want to let the contract for construction until a license is approved by the Board.

* Rock Island has experienced a revitalization inspired by the possibilities of riverboat gambling. The Board is urged to establish an expedited licensing process.

Chairman Kunkle stated that the Act authorizes applications to be received until July 1, 1990, and fairness requires that no licenses be approved before then. In addition, Chairman Kunkle expressed concern about an expedited licensing process based on New Jersey's experience with Resorts International. There, extensive litigation resulted from the grant of a temporary license to Resorts International followed by the denial of a permanent license.

Mayor Allen McCaulley of Moline spoke next, offering the following comments:

* Tourism is expanding and other developments are occurring in the Moline area. Riverboat gambling will complement these developments.

* He discussed Joe Schadler's significant investment in the development of the river front in Moline, and stated that Moline supports Mr. Schadler's interest in riverboat gambling.

* It would be helpful for the Board to offer some sort of preliminary sign of approval in order to expedite matters.

Mr. Heninger spoke next, presenting to the Board and discussing a notebook entitled "Preliminary Application" concerning Mr. Jumer's Peoria and Rock Island proposals. Mr. Heninger offered further comments:

* He discussed the development of the river front in the Quad Cities, and stated that riverboat gambling offers a great opportunity for the area.

* They hoped to see a riverboat in operation by the end of this year. Expedited licensing is critical to getting a riverboat in the water in 1991.

* It is necessary for the Board to determine its goals. The legislature had mandated the Board's goal to be having riverboat gambling in operation by January 1, 1991.

* A developer needs lead time of at least 9 months to construct a riverboat, and would want some sort of preliminary approval before starting construction. He discussed a variety of requirements upon which preliminary approval could be based, and explained how Mr. Jumer met all of these requirements.

* Contracts with Rock Island and Peoria give Mr. Jumer exclusive rights to develop the river fronts there. Therefore, there would be no licensee competition with Mr. Jumer for those locations.

* Construction of a river boat should start no later than May 15, 1990 in order to get a river boat in operation by the spring of 1991. Mr. Jumer is prepared to go forward as soon as a preliminary letter of intent from the Board is received.

The next speaker called by the Board was Joe Schadler. Mr. Schadler presented to the Board and discussed written materials concerning the proposed expansion of his current riverboat operations in Moline to include riverboat gambling. Mr. Schadler further stated that his proposed development would lead to other development by Ken Hendricks.

The next speaker called by the Board was Dick Baldwin, who spoke on behalf of Ken Hendricks. Mr. Baldwin presented to the Board and discussed written

materials concerning Mr. Hendricks' proposed land based development in Moline. Mr. Baldwin offered the following additional comments:

- * Moline has endorsed Mr. Hendrick's proposed development. Land based development is critical to a riverboat gambling operation.

- * Before moving ahead, it is important that an economic impact study be done regarding the areas along the Mississippi and Illinois Rivers, because many cities will be competing for the same tourist dollars.

The next person who addressed the Board was Quinton Davis, Assistant City Manager of Peoria. He discussed Mr. Jumer's proposed operation in Peoria, and the materials submitted to the Board concerning that operation. He encouraged the Board to establish an expedited licensing process because Peoria and Mr. Jumer have fully developed their proposal and are ready to proceed.

Mayor Schwiebert of Rock Island again addressed the Board, providing the following comments:

- * The Board should balance the perceived need to wait until after July 1, 1990 before approving licenses against the economic implications of delaying license approvals for that long, for Illinois would lose its economic edge over Iowa.

- * The Act could be reasonably interpreted to allow the issuance of preliminary licenses. The concerns raised by Chairman Kunkle with respect to the New Jersey experience with preliminary licenses could be addressed by requiring that thorough and comprehensive information be submitted by an applicant prior to issuance of a preliminary license.

- * Detailed information about the Mr. Jumer's project has been submitted to the Board. The participants in that project would be willing to provide to the Board any additional information which it desires.

- * The Board should not issue more than 5 preliminary licenses.

Chairman Kunkle commented that the Board is concerned about the position it would put itself in if it offers preliminary approval to more than 5 applicants, or to the first five applicants. This procedure could result in an unfair licensing process and litigation.

Mayor Schwiebert responded, stating that if there were more than 5 qualified applicants, the first 5 having been granted preliminary approval, then the 6th applicant would have to wait until the following year.

Mr. Heninger further responded, stating that with respect to Rock Island and Peoria, Mr. Jumer has reached exclusive agreements with each city and is prepared to proceed. Therefore, there are no other applicants who could apply for licenses at those sites.

Mr. Johnson asked the three mayors from the Quad Cities area whether any projections or studies had been made as to the financial benefits to be received in their area from the various proposed riverboat gambling projects.

Mayor Schweibert responded, stating:

* At this point there is a consensus in the Quad Cities that support should go to Mr. Jumer with respect to the Rock Island site, and to Mr. Schadler with respect to the Moline site.

* It is premature to say what the saturation point might be for riverboat gambling operations. Such matters as the limitation of available waterfronts would bear on the issue.

Mr. Heninger further responded, stating that Illinois locations have an advantage over Iowa locations because the Illinois bill is more favorable than the Iowa bill, and therefore there is a more favorable economic climate in Illinois.

Mr. Johnson asked whether geography would be a limitation on the economic viability of riverboat gambling projects.

Mayor Schwiebert responded, stating that where projects are proposed on both sides of the river, as with Davenport and Rock Island, it could be very costly to Illinois if the Iowa side has a license and the Illinois side does not.

Mayor McCaulley responded, stating that he too felt that it was too early to determine the saturation point for riverboat gambling. The proposed development in the Quad Cities area is intended to be a positive development, one that will improve the community and the infrastructure.

Mr. Johnson asked whether there had been discussions with such agencies as the Department of Commerce and Community Affairs concerning the coordination of the Quad Cities programs with other tourism programs in Illinois.

The Director of the Quad Cities Tourism Bureau responded, providing the following statements:

* The Bureau has a grant from the Department of Commerce and Community Affairs for their marketing, as well as support from the cities in the Quad Cities area.

* The Bureau has looked closely at both the Rock Island and Moline projects, and sees them as being uniquely different and complementary.

* The Department of Commerce and Community Affairs has pledged advertising money for riverboats on the Mississippi, and is working on an economic impact statement concerning the proposed riverboat gambling projects in the Quad Cities.

Mr. Johnson asked Mr. Heninger how much equity should be held by a licensee in the form of invested capital. Mr. Heninger responded, stating that Mr. Jumer would meet whatever standard the Board adopts.

Chairman Kunkle spoke next, stating again for the record that the Board at this time is not accepting preliminary applications for licenses and that the Board's immediate concern is the receiving of comments concerning the licensing procedure. Chairman Kunkle also made the following comments:

* There are important legal issues which the Board must address, including the requirement under the Act that a person or entity who owns a license cannot own more than 10% of another license, and questions which arise when local governments enter into various contracts and agreements with

individual applicants or pass various regulations which conflict with the Board's.

* The Board both understands and appreciates that the legislative intent behind the Act included the desire to proceed quickly and to provide economic benefits for Illinois and its cities. However, the Act places a strong obligation on the Board to do things right. The Board will see to it that the entire process is clean and honest, and will not sacrifice that responsibility in the interest of expediency.

The Board next called Frank Speener, who presented the written comments of Fred Kirkpatrick.

The Board next called Carl Ortale, who discussed the prospect of riverboat gambling based on the Mississippi in the southern part of Illinois. Mr. Ortale provided the following comments:

* The 5 southernmost counties are interested in operating riverboat gambling, including Williamson and Jackson Counties.

* That area is the only part of the Mississippi River where interstate highways run along both sides of the river, from Cairo all the way to St. Louis.

* The southern counties are much warmer in the winter than Rock Island, and offer many state parks.

* Although secondary roads will have to be developed, there is no place where you can access the Mississippi River in a more timely and fashionable manner than in the 5 southernmost counties.

* The City of Grand Tower in Jackson County is interested in docking riverboat gambling, but it cannot meet the population requirement of 2,000 people contained in the Act.

* The 5 county area is in a television market which includes Cape Girardeau, Paducah and Harrisburg. Local news is broadcast to 5 states, which would be a tremendous asset in recruiting tourism dollars.

* The revenue from riverboat gambling would help Grand Tower's efforts to get flood insurance, since it is having problems with federal flood insurance.

Mr. Ortale asked the Board whether a city could recruit a boat licensed for riverboat gambling in another state to dock in the city, and if so, could it charge an embarking tax.

Chairman Kunkle and Mr. Johnson stated that there is no population requirement in the Act for a riverboat docking outside a municipality, so long as the county board has approved riverboat gambling. Chairman Kunkle stated that the docking of boats licensed in other states is not addressed on the face of the Act, but the Act assumes riverboat gambling which operates under Illinois licenses.

The Board next called Mike Wade, Director of the Restaurant Management Program at Moraine Valley Community College. Mr. Wade presented written information to the Board concerning a proposed Resort and Casino Management course of study at Moraine Valley Community College, and offered the following comments:

* Educational requirements in casino management and gaming in Nevada and New Jersey are widely diverse. Las Vegas has no education requirements while New Jersey has excessive educational requirements. The Board should require something in the middle.

* The Board should require college credit courses to certify employees in riverboat gaming. However, too many hours should not be required because of potential conflict with the Illinois State Community College Board. An educational requirement as part of the certification process would benefit both the students as future employees and the riverboat gaming industry.

* One benefit of a Community College System program over a traditional dealer's school program is that the costs and fees charged by dealer's schools can be arbitrarily high, while the tuition charged by Community Colleges are set at a low rate. Training costs would be lower.

The next speaker called by the Board was Lawrence Suffredin, an attorney representing Steamboat, Illinois, Inc. With Mr. Suffredin was Douglas M. Kratz, President of Steamboat, Illinois, Inc.

Mr. Suffredin presented and discussed written comments to the Board. Mr. Suffredin offered the following additional comments:

* There are three issues which the Board should consider at this time:

1) the Act should be firmly established during the application process, and should not be undergoing change or revision by the General Assembly;

2) the audit period required under Section 15 of the Act should be reconsidered, for monthly audits may be too frequent to be practical; and

3) it would be a mistake to rush the application process. In Iowa, it took 30 days to prepare and submit the application to the Iowa board, 60 days at a minimum for Iowa to complete the background investigation, and 30 days after completion of the investigation for the Iowa board to decide whether to issue a license.

* It is important for the Board to develop reasonable but tough rules and regulations. Those from Nevada and New Jersey are fine models.

* It is essential for there to be a coordinated marketing plan between the licensees and the State.

* With respect to debt versus equity, a minimum amount of equity required should be between 15% and 25%. In addition, the people standing behind the other 75% should have to pass very tough financial scrutiny. No matter what the method is for financing the other 75%, it should be clearly collateralized in other ways.

Upon questioning by the Board, Mr. Kratz offered the following comments:

* The economic development strategy necessary to assure that a licensee is successful requires that the applicant do feasibility studies. The Board should request feasibility studies from the applicants as part of the application process.

* In Iowa, the Iowa Board and the accountants agreed to a system based on generally accepted accounting principles which included monthly statements by the operator, quarterly review, or certified audit if necessary, by an accounting firm, and a certified annual audit.

Mr. Suffredin added:

* A certified audit is a very precise and difficult undertaking. Doing them on a monthly basis is not practical. If generally accepted accounting principles are followed, the accountability and integrity contemplated under the Act can be accomplished under a less onerous time scheme.

* Preliminary licensing or an expedited licensing process is not a good idea. The Board should establish permanent rules before proceeding. The Board's licensing process should be a model for others to follow, and should not raise the specter of a potential legal cloud on anyone's license.

Upon further questioning by the Board, Mr. Kratz offered the following comments:

* The Coast Guard should be consulted about the standards which should be established concerning riverboat safety. The Coast Guard will have to certify the riverboats, and will look at such things as weight distribution and the purposes for which the riverboats will be used.

The Board next called Richard Werner, representing Little Trumpe Enterprises. Mr. Werner stated:

* A primary concern is that the Act requires riverboats to be out of port when gaming is conducted. Because a river may be unnavigable due to weather or water level, the Board should consider allowing gaming in port.

* The Act should contain no cap on losses.

Upon questioning by the Board, Mr. Werner further stated:

* To solve the problems caused by unnavigable river conditions, gaming should be allowed on a riverboat while in port so long as the riverboat is a floating vessel.

* It is both expensive and unnecessarily restrictive on customers to require that gaming be conducted only while a riverboat is underway.

* A requirement that a certain maximum percentage of gaming operations take place while a riverboat is underway and that beyond that gaming would be allowed while a riverboat is docked if the river is unnavigable is a good idea.

* Another issue to be considered is, since licensees most likely will operate, whether it would be possible to allow one vessel to remain stationary while the other vessel moves.

The Board next called John Hayes, who represented a group of investors from the Putnam/Marshall County area along the Illinois River. Mr. Hayes stated:

* His group is looking at a fairly small operation, more oriented to recreation than to gambling. Specifically, they are interested in knowing whether the Board would consider a dinner/bingo type of operation on a smaller

scale than the 600 - 1200 person operation currently contemplated under the Act, focusing on senior citizens.

The Board next called Thomas K. Tryboski, representing Mississippi Maverick, Inc. Allen Wolfe, an attorney with Mr. Tryboski's law firm, appeared before the Board. With Mr. Wolfe were Jack Keen, President of Mississippi Maverick, Inc. and Larry Hillman, an accountant with Ernst and Young. Mr. Wolfe presented to the Board and discussed written comments. Upon questioning by the Board, Mr. Wolfe offered further comments:

* The application pre-approval process discussed in his written comments could not issue until after July 1 because of the requirements of the Act. However, its purpose is to be issued prior to the completion of full review of the application, which would take at least 6 months, because the period right after July 1 is a crucial period for developing the riverboat gambling project.

* A licensee who receives a pre-approval letter of intent shortly after July 1 and then proceeds with his project, but fails to meet a condition prescribed, under the Board's rules and regulations, would not be entitled to receive a full license. That risk should be borne by the licensee, who is proceeding in anticipation of ultimately receiving a full license.

* The licensing process will be aided by the Board's opportunity to draw from the experience of Nevada and New Jersey.

* Those applicants who are raising capital from the outside most likely will be issuing securities of one form or another. Therefore, there likely will be a parallel between the securities laws and the regulations which the Board will be promulgating.

* There is no difference in potential problems if you issue 5 or 25 pre-approval letters of intent, for the Board's decisions in both circumstances are based on concerns based in the Act and in the Board's rules and regulations. Whether a decision by the Board is made at the pre-approval stage or at the final approval stage does not bear on whether that decision by the Board was arbitrary and capricious.

* In a situation where 25 applicants apply, 5 pre-approval letters of intent are issued, one of the 5 preliminarily approved licensees is denied a license, and the 6th applicant is given the opportunity to come back in, the 6th applicant is basically re-applying or renewing its application. When the 6th applicant did not receive a pre-application letter of intent, it would have had its \$50,000 application fee refunded because no background investigation concerning it would have been conducted. Now it must re-submit the \$50,000 fee and undergo the full licensing process. The 6th applicant, therefore, cannot argue that it should have been granted a license the first time and sue for lost profits.

* A \$500 limit on losses is not desirable. It would be very difficult to enforce, even with a cashless wagering system. This type of system would require either gambling exclusively by electronic card, for which the technology is still developing, or a situation where customers would have to stand in line at the start of the excursion to cash in and at the end of the excursion to cash out, which would negatively impact the economics of the operation and the clientele's pleasure.

* In a cashless wagering system based on chips or tokens, if a limit is imposed on losses customers who reach their limit will simply buy chips from other customers.

The next speaker called by the Board was Joe McQuaid of the Illinois State Police. Mr. McQuaid offered the following comments:

* The Illinois State Police offers the Board its total and complete cooperation both in conducting background investigations and in providing enforcement responsibilities which the Board finds appropriate.

Upon questioning by the Board, Mr. McQuaid offered these additional comments:

* Background investigations may be conducted either through a decentralized approach, where there are officers assigned to specific geographical locations, or through a central specialized unit based in either Springfield or Chicago.

* A centralized background investigation unit would give the Board more authority and control over the unit.

* Out of state authorities, particularly in Nevada and Las Vegas, have been very cooperative in the past. But to do a thorough investigation, the Board should in some circumstances send its own investigators out of state to investigate out of state persons.

* Authorities in both Nevada and New Jersey feel that enforcing a cap on gambling losses would be an improbably, if not impossible, task. The excessive gambler would not be affected by the cap, for he will find ways to keep gambling, either on the riverboat or through other means.

* Because of manpower shortages, expeditious handling of background investigations will be a problem.

* It takes more than 30 days to conduct a background investigation of a person who wants to be a state trooper. Looking at the Nevada and New Jersey application forms as models, it is clear that the Board's background investigations will take much longer.

* The background investigations should be done first, and done right, before proceeding to the other licensing processes. It is not clear how tentative license approval would work if background investigations have not been completed.

* Assuming that 3 troopers is the number of troopers needed to provide law enforcement services on a riverboat and that the gambling excursions will operate throughout a 12 - 14 hours period each day 7 days a week, 2 shifts of 3 troopers will be needed for each riverboat each day, which for a 7 day a week enforcement program will require 4 shifts of 3 troopers to be assigned to each riverboat. That means 120 troopers would be needed to provide law enforcement services on the first 10 riverboats.

The meeting was adjourned for lunch at 12:15 p.m.; and was reconvened at 1:10 p.m.

Chairman Kunkle called on Mr. Steere to report on the progress which had been made concerning the preparation of application forms and regulations. Mr.

Steere advised that a draft application form was being prepared, and discussed some of the issues which the application form would address. Mr. Steere further advised the Board to thoroughly consider all the issues before determining whether to implement an expedited licensing process.

Senator Jacobs next addressed the Board, discussing the history behind the Act. The Senator stated that, even though it is not provided in the text of the Act, the intent behind the Act was to give a municipality the ability to make a choice concerning an owner and pass that choice on to the Board. There was concern that the municipality should have tremendous input from an economic standpoint, which could very well reduce the number of applicants the Board would have to consider.

Answering a question asked by a member of the general public, Chairman Kunkle stated that no date had been established for accepting supplier's license applications.

Mr. Johnson moved that the Board retire to a neighboring room to conduct a closed session concerning personnel matters. Mr. Chamblin seconded the motion and all members voted in favor. Whereupon, the Board conducted a closed session.

Upon the Board's return from closed session Chairman Kunkle reported that the Board had discussed personnel matters.

The Board set its next meeting to begin at 9:30 a.m. on Wednesday, April 25, 1990, at a location in Springfield, Illinois to be announced.

The meeting was adjourned at 2:15 p.m.

Robert D. Steere
Temporary Secretary and Counsel
Illinois Gaming Board

Exhibit A

ILLINOIS GAMING BOARD MEETING - April 12, 1990

POTENTIAL ATTENDEES THAT WISH TO MAKE COMMENTS:

1. Ralph W. Heninger (representing J. Jurners)
Attorney at Law
101 W. Second Street, Suite 501
Davenport, Iowa 52801
2. Frank Speener & Fred Kirkpatrick
5250 N. Knoxville
Apt. 201
Peoria, IL 61614
3. Carl Ortale
Route 2, Box 209
Carterville, IL 62918
4. Dick Baldwin
Hendricks Real Estate Properties
Moline, IL
5. Mike Wade (re: Junior College System)
Moraine Valley Community College
Palos Hills, IL 60465
6. Larry Suffredin
client, Steamboat, Illinois, Inc.
7. Richard Werner
2011 Kingsgate Plaza
Spanish Lake, Missouri 63138
8. Joe Schadler
Boardwalk on the Mississippi
2501 River Drive
Moline, IL 61265
9. Thomas K. Tryboski
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